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January 9, 1998

MEMORANDUM

TO: USAID/Bosnia-Herzegovina, Craig G. Buck
FROM: RIG/Budapest, *James R. Bonnell* James R. Bonnell
SUBJECT: Audit of USAID/Bosnia-Herzegovina's Municipal Infrastructure and Services Program for the Period April 1 through June 30, 1997

This memorandum is our final report on the subject audit. In preparing the report, we considered your comments on the draft report and included them at Appendix II. We also incorporated comments on the actions your staff has taken to begin to resolve the problems of the four facilities that were not being used as planned (see page 6).

The report concludes that, for the items tested, program funds are being used for the purposes authorized. Furthermore, the implementation of the Municipal Infrastructure and Services Program continues at a rate that, if maintained, should complete the construction targets well in advance of the 4% years originally established for the program.

One preliminary audit finding was issued during the reporting period (see Appendix VII for a summary). Because the Mission took corrective action on the finding, this report makes no new recommendations.

Thank you for the assistance and courtesies extended to my staff during the audit.

Background

Bosnia-Herzegovina declared its independence from the former Socialist Republic of Yugoslavia in March 1992, following the lead of Slovenia and Croatia which declared independence in 1991. The move to independence precipitated a war in Bosnia-Herzegovina that lasted from 1992 to the Dayton Agreement of October 10, 1995. After the war, Bosnia-Herzegovina was faced with consolidating the peace and reconstructing its war-torn economy. In addition to financing needed repairs to the infrastructure and providing social services, the government faced large private claims and large claims for wages and pensions.

In early May 1996, the Assistant Administrator for the Bureau of Europe and the New Independent States authorized the 4½-year, \$182 million Municipal Infrastructure and Services (MIS) program to assist in Bosnia-Herzegovina's recovery. On May 9, 1996, a grant agreement was signed between the United States and Bosnia-Herzegovina to obligate the initial \$23 million for this program. In early July 1996, USAID transferred the \$23 million to Bosnia; another \$35 million was obligated and transferred in September 1996. For fiscal year 1997, USAID obligated \$52 million on March 20, 1997, and transferred this amount to Bosnia-Herzegovina on April 28, 1997. See Appendix VI for additional background information.

Audit Objective and Scope of Work

The objective of this concurrent audit was to determine whether USAID/Bosnia-Herzegovina and the implementing contractor used economic revitalization assistance funds designated for the Municipal Infrastructure and Services Program for the purposes authorized under the Grant Agreement and Public Law 104- 122.

The Office of the Inspector General has issued periodic reports on the Municipal Infrastructure and Services Program. This is the third report' on that Program. Appendix I contains a discussion of the scope and methodology for the audit.

Audit Findings

Did USAID/Bosnia-Herzegovina and the Implementing Contractor Use Economic Revitalization Assistance Funds Designated for the Municipal Infrastructure and Services Program for the Purposes Authorized Under the Grant Agreement and Public Law 104-122?

For the items tested, USAID/Bosnia-Herzegovina and the implementing contractor were using the economic revitalization assistance funds designated for the Municipal Infrastructure and Services (MIS) program for the purposes authorized under the MIS grant agreement and Public Law 104-122.

MIS Program - What can funds be used for?

After the collapse of Yugoslavia and during the ensuing four-year war, there was no investment in new infrastructures in Bosnia-Herzegovina. Also, except for emergency measures,

¹ See Audit Report No. B-168-97-003-P, dated March 26, 1997, for the period May 4 to December 31, 1996, and Audit Report No. B-168-97-005-P, dated June 27, 1997, for the period January 1 through March 31, 1997.

maintenance and repair of existing infrastructures were neglected. More devastating, however, was the damage to the infrastructure caused by the war (see photo).



War damages to this bridge included the destruction of a 28.5 meter concrete rail overpass, heavy damage to one pier and a 92 meter span of steel latticed girder dislodged into the Sava River. According to Parsons, when repaired, the \$2.1 million Railway Bridge will re-open the railway from BosniaHerzegovina to Croatia and other European countries. The photo on page 4 shows the progress of the project at the time of the audit. Steel girders will complete the span; the project is expected to be completed by October 1, 1997.

Destroyed span of bridge in the Sava River.
Photo taken by Parsons employees.



A view of the partially repaired Brcko Railway Bridge visited by auditor in July 1997. Photo by Parsons employees.

Infrastructure projects eligible to receive assistance under the MIS program include water resources, sanitation, electric power, transportation (local roads and bridges), communication, and public services such as schools and health clinics. The construction targets established for the \$144 million 4 1/2-year MIS program are:

- Sixty-five municipal infrastructure projects, costing approximately \$1.5 million each, for a total of \$97 million;

- Forty small infrastructure projects, costing about \$2 million in total; and,

- Thirty-two shelter rehabilitation projects with about 200 houses per project that cost about \$7,000 per house, for a total of 6,400 rehabilitated shelters costing \$45 million.

During fiscal year 1996, reconstruction of housing was not eligible because USAID funded a

\$25 million Emergency Shelter Program to rehabilitate existing housing². For fiscal year 1997, Congress imposed further restrictions on construction of new housing and the repair or reconstruction of existing housing in Bosnia- Herzegovina unless it directly related to the efforts of U.S. troops to promote peace.

The following section discusses the USAID-approved programs and the status of the contractor's implementation of the programs for fiscal years 1996 and 1997.

MIS Status - What were funds used for?

As of June 30, 1997, USAID/Bosnia-Herzegovina had obligated \$110 million and disbursed \$58 million to Bosnia-Herzegovina to implement the FY 1996 MIS projects and \$52 million to implement FY 1997 projects.

Fiscal Year 1996 MIS Program. In the 14 months since the MIS Program was authorized, USAID identified and approved 165 projects totaling \$54.8 million, including:

- 36 major projects valued at \$49.7 million in five public sector areas: energy, transportation, water resources, education, and health.
- 129 small (about \$39,500 each) Community Infrastructure Rehabilitation Projects (CIRPs) with a value of \$5.1 million.

Parsons Delaware, Inc., (Parsons) was competitively selected to implement the MIS program and USAID signed a \$20.6 million cost-plus-fixed-fee contract on June 10, 1996. Parsons' advance team arrived in Sarajevo on June 26, 1996 to begin implementing the program. As of June 30, 1997, Bosnia-Herzegovina had transferred \$47.3 million to Parsons and, using these funds, Parsons issued:

- 55 subcontracts to implement MIS projects totaling \$15.4 million;
- 122 subcontracts for the CIRPs totaling \$4.6 million; and,
- 148 purchase orders for project commodities valued at \$26.1 million.

Construction was in-progress for 19 of the 36 MIS projects, and the work was essentially complete for the other 17 projects. In addition, subcontractors had completed 103 of the 129 CIRP projects.

Fiscal Year 1997 MIS Program. During this reporting quarter, USAID identified and approved 89 projects totaling \$45.7 million, including:

² See Audit Report No. B- 168-97-00 1-P, "Audit of USAID's Disaster Assistance Activities in Bosnia-Herzegovina," dated January 10, 1997.

- 48 major projects valued at \$43.7 million in five public sector areas.
- 41 small (about \$49,000 each) CIRPs with a value of about \$2 million.

As of June 30, 1997, Parsons issued:

- 6 subcontracts to implement MIS projects totaling \$96 1,086;
- 30 subcontracts for the CIRPs totaling \$1.3 million; and,
- 4 purchase orders for project commodities valued at \$727,187.

Of the 48 approved MIS projects, construction was in-progress for 10 projects and 1 project was completed during this reporting quarter. Similarly, subcontractors had begun work on 28 of the 41 approved CIRPs. See Appendix III for additional information on the status of the MIS program.

Results of Audit Tests

This is our third report on the MIS Program. For this period, our audit work was focused on testing the project internal controls, updating the status of project activities, and inspecting projects. Appendix I contains a more detailed description of our audit scope and methodology.

During this period, we visited project sites to verify the project's existence, construction status, and subcontract amount, and the monitoring done by USAID and the contractor. We inspected 20 of the 165 projects. No major problems were identified at the 20 projects visited. However, two of the 18 CIRPs were not being used as planned approximately five months after completion, as shown below.

- A total of \$30,948 was budgeted for a health center project in Kalesija which was completed in March 1997 at a cost of \$44,600. However, the facility was not being used as a health center because of problems with electricity and leaking interior water pipes. The subcontractor is to repair the water pipes. At the time of our visit, the center was operating as a small, day-care center, caring for 16 children.
- Repairs to a four-grade primary school in Vukosavje, completed in November 1996, totaled \$47,126. However, this school had not been used because there was no heat, water, or furniture and equipment. Local school officials are hopeful that the school will open for the 1997-98 school year.

In response to our report of audit finding, USAID/Bosnia-Herzegovina took corrective action. See Appendix VII for additional information.

Regarding the health center and the primary school discussed above, USAID/Bosnia-Herzegovina's project engineers visited both sites in November, reassessed the situation and reported that, due to the lack of equipment, neither facility was being used as intended. The

Mission's project manager stated that they will be working with the U.S. sector of the Stabilization Force (SFOR), local officials and nongovernmental organizations to get the facilities equipped and functioning.

We also revisited two CIRPs, NORD-021 and NORD-025, to determine whether the problems identified during a previous visit had been corrected.³ Under NORD-021, a school roof had been repaired, but the remainder of the school was in such disrepair that it could not be used. Subsequently, the Federation budgeted funds to rehabilitate the building. Scaffolding had been erected, but work was not underway at the time of our visit. Under NORD-025, steam heat radiators had been replaced in a kindergarten, but two radiators cracked when water froze because the regional boilers were not working. During our follow-up visit, the principal indicated that the building's heating system was now operational. However, the regional center heating system, from which the school gets its heat, is still not working. A nongovernmental organization has a project to repair it.

In November, USAID/Bosnia-Herzegovina's project engineers also visited both CIRPs and reported that, under NORD-021, the school was operational. The central heating for the school under NORD-025 was still not functioning because of continuing problems with the city's central heating and lack of funds. According to their report, the project engineers visited municipal officials and suggested that they prepare a proposal, under the Fiscal Year 1997 CIRP, for construction of a boiler room and heating substation for the kindergarten.

In February 1997, USAID and SFOR signed a new memorandum of agreement delineating the responsibilities for the 1997 CIRPs among USAID, Parsons, and SFOR. Under this new agreement, SFOR is responsible for preparing weekly monitoring reports on each activity. We met with the SFOR representative to review their monitoring procedures for the FY 1997 CIRP program. Since project implementation began during the month of June 1997, it was too soon to verify whether the new monitoring procedures are being followed. We plan to review this operation during future fieldwork.

Appendix IV contains more details on the results of our site visits.

³ See Audit Report No. B-168-97-005-P, dated June 27, 1997, for the period January 1 through March 31, 1997.

Scope and Methodology

Scope

The Office of the Regional Inspector General/Budapest is conducting a concurrent audit of USAID's Municipal Infrastructure and Services (MIS) activities in Bosnia-Herzegovina in accordance with generally accepted government auditing standards. The reporting period for this audit was April 1 through June 30, 1997. The audit was conducted from May 20 through June 4 and from June 29 through July 18, 1997. We conducted our audit at the USAID offices in Tuzla and Sarajevo, and the Parsons Delaware, Inc., office in Sarajevo.

We inspected 20 Tuzla-managed projects and met with a representative from the U.S. sector of the Stabilization Force (SFOR) to review their monitoring procedures for the FY 1997 CIRP program. In response to USAID/Bosnia-Herzegovina's request, we also examined whether Parsons was implementing controls over U.S. government property. For example, we reviewed policies and procedures covering: vehicle maintenance, inventory and use; personal use of copiers and telephones; and contracting procedures.

During this reporting period, we did not audit the MIS program bank accounts maintained by National Bank of Bosnia-Herzegovina or Parsons. Also, we did not audit the program's financial statements that are shown in Appendix V. Furthermore, we did not visit any Fiscal Year 1997 MIS or CIRP projects during this reporting period.

Methodology

Audit methodology included file reviews, interviews, field visits and data analysis. We reviewed House Joint Resolution 170 (Public Law 104-122), the Foreign Operations, Export Financing, And Related Programs Appropriations Act of 1996 (Public Law 104-107), the Grant Agreement between Bosnia-Herzegovina and the United States of America, program documents and contracts, to determine the MIS program objectives and restrictions. We interviewed USAID and contractor officials to obtain their views on problems being experienced in the program and the adequacy of actions taken to address these problems.

We inspected 18 of the 129 Community Infrastructure Rehabilitation Projects (CIRPs) in the Republic of Srpska and Tuzla areas to verify the project existence, construction status,

subcontract amount, and whether the project was being used. The seven CIRP projects visited in May were last visited in December 1996. In July, we limited our visits to CIRP projects located in the Republic of Srpska because site visits in previous quarters focused on projects in the Federation of Bosnia. We randomly selected six projects to visit and also visited an additional five projects because of their proximity to the randomly-selected projects.

The budgeted amount for the 18 CIRPs visited was \$664,219—about 13 percent of the CIRP budget for FY 1996. In addition, we judgmentally selected two of the 36 MIS projects to visit. Slightly more than \$4.4 million was budgeted for the two MIS projects inspected, which is about 9 percent of the MIS project budget for FY 1996.



Appendix II

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

Date: November 21, 1997

To: James R. Bonnell, RIG/A/Budapest

From: Craig G. Black, Director

Subject: Draft Audit Report on USAID/Sarajevo's Municipal Infrastructure and Services
Program for the period April 1 through June 30, 1997

We have reviewed the subject draft audit report and continue to be pleased that the on-going audit activities have not uncovered any unforeseen problems with implementation of the program. We are also pleased that implementation of the program continues to move forward as intended and that construction targets may be met well in advance of the 4 ½ years originally established for the program as pointed out in your draft. We also note that your draft report contained no new recommendations.

We continue our appreciation of and satisfaction with the work of the RIG audit team and their responsiveness to look at areas of concern to us in addition to items included in their overall audit plan of this program. Their work and inputs into program implementation continue to add to the program's success to date.

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**Audited Status of the
Municipal Infrastructure and Services Program**
as of June 30, 1997

On March 29, 1996, Congress appropriated funds for the economic revitalization of Bosnia-Herzegovina. In May 1996, the Assistant Administrator for the Bureau of Europe and the New Independent States authorized the 4-year, \$182 million Municipal Infrastructure and Services (MIS) program to assist in Bosnia-Herzegovina's recovery. On June 10, 1996, USAID signed a contract with Parsons Delaware, Inc. (Parsons) to implement the MIS program.

As of June 30, 1997, USAID/Bosnia-Herzegovina had obligated and disbursed \$110 million to Bosnia-Herzegovina for infrastructure projects; \$58 million for the Fiscal Year 1996 program and \$52 million for the Fiscal Year 1997 program. Also, the Mission had approved the transfer of about \$47.3 million of these funds to Parsons to implement the FY 1996 program.

Table A shows the construction targets and estimated cost established for the 54-month MIS implementation period as well as the number of projects and the value of approved budgets for the fiscal year 1996 and 1997 programs. As of June 30, 1997, USAID/Bosnia-Herzegovina had approved 165 projects for FY 1996 and 89 projects for FY 1997.

TABLE A
COMPARISON OF PLANNED MIS PROGRAM AND
APPROVED PROGRAM FOR FYs 1996 AND 1997
AS OF JUNE 30, 1997

Type of Project	Number of Planned Projects	Number of Approved Projects FY1996	Number of Approved Projects FY 1997	Total Estimated Cost	Value of Approved Budgets FY1996	Value of Approved Budgets FY1997
Municipal Infrastructure	65	36	48	\$97,000,000	\$49,717,083	\$43,734,000
CIRPs	40	129	41	2,000,000	5,061,294	1,963,475
Shelter	32	0	0	45,000,000	0	0
Totals	137	165	89	\$144,000,000	\$54,778,377	\$45,697,475

Also, as shown in Table A [see previous page], the total value of the approved budgets for the two fiscal years of the MIS Program accounts for more than \$100 million, or about 70 percent, of the total estimated cost of \$144 million. Furthermore, 254 projects have been approved—considerably more than the 137 originally planned. The shelter rehabilitation projects have not started because of the Congressional ban on construction of new housing and the repair or reconstruction of existing housing in Bosnia-Herzegovina. Table B below and Table C on page 4 of this appendix provide more detailed information on the actual progress of the two fiscal year programs, i.e., the amount and number of approved contracts.

Fiscal Year 1996 Program

As presented in Table B, USAID/Bosnia-Herzegovina identified projects totaling \$54.8 million for funding the FY 1996 program. The projects included 36⁴ major projects in five public sector areas and 129 small Community Infrastructure Rehabilitation Projects (CIRPs) that were recommended for funding by Implementation Force (IFOR) personnel. As of the end of June 1997, Parsons had signed 325 subcontracts and purchase orders valued at about \$46 million.

TABLE B
FY 1996 MIS PROGRAM
AS OF JUNE 30, 1997

Project Sector	Budget Identified	Projects Approved	Amount of Contracts	Contracts Approved
Energy	\$33,756,493	14	\$26,533,458	155
Transportation	6,266,284	6	5,997,601	12
Water Resources	5,516,017	5	5,132,499	20
Education	2,443,565	8	2,079,890	8
Health	1,734,724	3	1,593,454	6
CIRPs	5,061,294	129	4,644,543	124
Totals	\$54,778,377	165	\$45,981,445⁵	325⁵

⁴ Thirty-eight projects were identified for the quarter ended March 31, 1997. However, during the quarter ended June 30, 1997, the Mission changed how it reports the number of projects; the net effect is 14 energy sector projects instead of 16. Furthermore, the Mission adjusted the budgets for 34 of these projects.

⁵ This amount includes \$19,928,427 for 177 subcontracts and \$26,053,018 for 148 commodity purchase orders.

For the 1996 Program, 7 MIS and 24 CIRP projects were completed during this quarter. Therefore, through June 30, 1997, 17 MIS projects and 103 CIRPs had been completed. The seven MIS projects completed this period are:

- Kalesiia Substation. 96-I-A. This energy project was budgeted for \$2.34 million to rehabilitate power lines from Tojsici to Kalesija, including reconstruction of the 35/10 KV substation and restoration of electric power to selected villages. Total payments by Parsons as of June 30, 1997, were \$2,255,073; including \$398,321 for subcontracts, \$1,709,070 for purchase orders and \$147,682 for demining, therefore, the project was \$85,497 under budget.
- Hadzici. 96-I-F. The budget for this energy project was about \$1.35 million. Total payments by Parsons as of June 30, 1997, were \$1,310,371; including \$118,659 for subcontracts, \$1,160,446 for purchase orders and \$31,266 for demining, therefore, the project was \$37,616 under budget.
- Vogosca. 96-I-G. The budget for this energy project was \$383,390. Total payments by Parsons as of June 30, 1997, were \$420,042; including \$7,071 for subcontracts, \$311,656 for purchase orders and \$101,315 for demining, therefore, the project was \$36,652 over budget.
- Ilijas. 96-I-H. The budget for this energy project was \$69,882. Total payments by Parsons as of June 30, 1997, were \$64,757; including \$62,691 for purchase orders and \$2,066 for demining, therefore, the project was \$5,125 under budget.
- Visoko. 96-I-1. The energy sector project budget for the repair and restoration of power lines was \$88,192. Total payments by Parsons as of June 30, 1997, were \$82,126; including \$75,955 for purchase orders and \$6,171 for demining, therefore, the project was \$6,066 under budget.
- Zenica Municipal Water System. 96-3-C-1. The water resources sector project was budgeted for \$668,774 to identify and replace pipes in the municipal water system. Total payments by Parsons as of June 30, 1997, were \$530,988; including \$128,703 for subcontracts, \$358,068 for purchase orders, and \$44,217 for demining, therefore, the project was \$137,786 under budget.
- Novo Sarajevo. 96-4-D-2. This education sector project was budgeted at \$500,000. Total payments by Parsons as of June 30, 1997, were \$558,079; including \$509,122 for subcontracts and \$48,957 for demining, therefore, the project was \$58,079 over budget.

The value of the 24 CIRPs completed during this period is \$940,177 and represents about 19 percent of the planned small community projects for the FY 1996 program.

Fiscal Year 1997 Program

As shown in Table C, USAID/Bosnia-Herzegovina identified projects totaling approximately \$45.7 million for funding the FY 1997 program. The projects included 48 major projects in five public sector areas and 41 small CIRPs that were recommended for funding by Stabilization Force (SFOR) personnel. As of June 30, 1997, Parsons had signed 40 subcontracts and purchase orders valued at almost \$3 million.

TABLE c
FY 1997 MIS PROGRAM
AS OF JUNE 30, 1997

Project Sector	Budget Identified	Projects Approved	Amount of Contracts	Contracts Approved
Energy	\$22,003,000	20	\$444,248	2
Transportation	4,900,000	4	692,227	3
Water Resources	13,561,000	16	0	0
Education	990,000	4	55 1,799	5
Health	2,280,000	4	0	0
CIRPs	1,963,475	41	1,267,535	30
Totals	\$45,697,475	89	\$2,955,808⁶	40⁶

For the 1997 Program, one MIS project was completed during this quarter as discussed below:

- Lukavica Facility. M7RSdE020. This education sector project was budgeted at \$130,000. Total payments by Parsons as of June 30, 1997, were \$130,000.

There were no 1997 program CIRPs completed during this reporting quarter.

⁶ This amount includes \$2,228,621 for 36 subcontracts and \$727,187 for 4 commodity purchase orders.

Audit Test Results
for the reporting period
April 1 through June 30, 1997

During this reporting period, we visited FY 1996 projects and, as of June 30, 1997, USAID/Bosnia-Herzegovina had identified 165 infrastructure projects and budgeted approximately \$54.8 million for these projects. The 165 projects included 36 large infrastructure projects and 129 small Community Infrastructure Rehabilitation Projects (CIRPs). We visited 20 of these projects—2 large MIS projects and 18 CIRPs—in May and July 1997 to verify the project existence, project usage, construction status, and the subcontract amounts.

One of the CIRPs (30MD-001) was not being used as a health center because of problems with electricity and water. However, the center is operating as a small, day-care center, caring for 16 children. On another CIRP (1 BCT-050), the four-grade primary school is still unused as the building does not have heat and the regional water supply is out. Additional detail for these two projects is provided on pages 3 and 7, respectively, of this appendix. The construction status of all projects visited follows.

Project Name/No.	Project Purpose	Amount Budgeted	Construction Status
Kalesija Substation [96-1-A]	Rehabilitate power lines from Tojsici to Kalesija, including reconstruction of the substation and restoration of electric power to selected villages.	\$2,340,570	<u>Complete.</u> Manufacturers representatives were on site testing equipment and training local staff to operate it. All equipment successfully passed the tests with the exception of a meter which was replaced by the manufacturer. The substation is already providing some electrical service to a small area of the village.

Project Name/No.	Project Purpose	Amount Budgeted	Construction Status
Brcko Railway Bridge [96-2-B]	To repair those sections of the Brcko Railway Bridge that were destroyed or damaged during the war.	\$2,090,157	<u>Work in Progress.</u> Reconstruction of the 28.5 meter prestressed concrete portion of the bridge, the damaged pier, and the abutment have been completed. Parsons estimated that 95 percent of the damaged steel girder has been removed from the river, cut, and stored at the site.
Bos. Brod [1 BCT-025]	Rubble cleanup and collection.	\$45,000	<u>Complete.</u> This project removed debris from the front of a school.
Brcko-Brka [1BCT-033]	Repair local water system.	\$30,560	<u>Work in Progress.</u> The purpose of this project is to distribute water from wells located outside town by means of pressure valves and a water pipe across the river. Water will be pressure pumped to a cistern then distributed to the village through the already-installed distribution system. Water distribution is expected to begin in mid-June, but the water tank won't be finished until mid-August.

Project Name/No.	Project Purpose	Amount Budgeted	Construction Status
Kalesija-Gojcino [30MD-001]	Repair health center.	\$30,948	<u>Complete.</u> This small health center is still not used as intended (see page 6). It does not have electricity. Water is available, but because the pipes leak the water cannot be turned on. The pipes are being repaired by the subcontractor. The walls still need repainting and floor tiles replaced. The project is presently being used as a day care center, caring for 16 small children.
Lopare-Priboj [RUSS-009]	Repair local school.	\$14, 253	<u>Complete.</u> This primary school accomodates 340 students. Repairs included painting of walls, doors and window joiner-y and replacement of broken window glass.
Lopare [RUSS-010]	Repair local school.	\$43,300	<u>Complete.</u> Repairs to this local primary school included wall patching, painting, glass replacement, and installation of vinyl floor tiles.
Lopare [RUSS-012]	Repair local school.	\$15,268	<u>Complete.</u> This local primary school accomodates 980 students. Repairs to this large, three-story building included painting, glass replacement, and repainting doors and window joinery.

Project Name/No.	Project Purpose	Amount Budgeted	Construction Status
Lopare [RUSS-022]	Humanitarian goods storage.	\$43,333	<u>Work-in-Progress.</u> This project was approved June 11, 1997. Planned repairs include the reconstruction of the roof, exterior and interior walls, the loading and unloading areas, and the sewage system. Scaffolding had been erected and work was in progress on the exterior walls. We also observed that work was underway on the building's interior.
Maglaj WORD-02 1]	Repair school roof.	\$50,514	<u>Complete.</u> The purpose of the CIRP was only to repair the roof to protect the building from the weather. The Federation budgeted funds to rehabilitate the building to make it operational. Scaffolding was up but work was not underway at the time of our visit.
Maglaj [NORD-025]	Reconstruct kindergarten.	\$47,182	<u>Complete.</u> The kindergarten was inaugurated on April 24 and was in operation with about 80 children attending. There are 14 employees. Interior heating system (radiators) was installed. The regional central heating system is still not working but another organization has a project to repair it.

Project Name/No.	Project Purpose	Amount Budgeted	Construction Status
Modrica-Carevac [1BCT-015]	Repair primary school.	\$4,520	<u>Complete.</u> Work at this primary school included repair of sanitary facilities, installation of a hot water heater and shower head, and procurement and installation of a water pump.
Samac-Nestorovic [1 BCT-003]	Repair electrical system.	\$43,5 83	<u>Complete.</u> According to USAID's senior engineer, repairs to the power lines restored power to about 75 homes.
Samac-Domalj evac [1BCT-039]	Maintain local water wells.	\$29,000	<u>Complete.</u> During our visit in December 1996, we found that the project was waiting on Norwegian-donated pumps in order to begin operations. The pumps arrived by early March and were installed and operating. Water was running at all 3 pump houses.
Vlasenica [2BCT-014]	Reconstruction of water supply.	\$47,000	<u>Complete.</u> The project supported the installation of three new water pumps, purchased by the municipality, and all the necessary electrical work and underground pipes. The system supplies water to about 13,000 inhabitants of villages in the area.

Project Name/No.	Project Purpose	Amount Budgeted	Construction Status
Vlasenica [2BCT-040]	Repair local high school.	\$44,786	<u>Complete.</u> A wide variety of repairs were made to this secondary school building, including replacement of main doors, patching an upper roof, and plumbing repairs. Ceramic tiling, lights and electrical switches were also installed.
Vlasenica [2BCT-037]	Repair local school.	\$41,173	<u>Complete.</u> The major work for this primary school was the installation of wooden ceilings and the repair and/or replacement of doors. Electric lights and lightguards were also installed in the gymnasium.
Vlasenica-Milici [2BCT-046]	Repair local hospital.	\$46,673	<u>Complete.</u> This hospital is the primary medical facility in the municipality and provides medical care to over 8,500 civilians. The project included wall and floor tiling of a surgical area consisting of two operating rooms, a room for pre- and post-surgery, and the doctors' lockers and changing area.

Project Name/No.	Project Purpose	Amount Budgeted	Construction Status
Vukosavlje [1 BCT-050]	Repair primary school.	\$47,126	<u>Complete.</u> This school is still unused (see page 6). According to a local school official at the site, the school is scheduled to begin operation in the 97-98 school year and about 45 children are expected to attend. There is no equipment, though they intend to coordinate with other donors for furniture and equipment. The building does not have heat and they do not know where it will come from (probably wood-burning stoves). Water pipes are installed in the building but the regional water supply is out and they do not know when it will be fixed.
Zivinice-Gomje Dubrave [4AVN-008]	Repair health facility.	\$40,000	<u>Complete.</u> The project was being used but was not well-equipped as the municipality has no money. According to the doctor, the health center treats 70 to 80 patients during the 2 days per week it is open. Treatment includes minor services such as injections, examinations, and medicine. Patients with serious problems are sent to the central clinic in Tuzla.

<p align="center">Unaudited MIS Fund Accountability Statement <i>as of June 30, 1997</i></p>
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The amount USAID/Bosnia-Herzegovina has budgeted, obligated, and disbursed for the MIS program is shown below. The amounts shown as project disbursements represent transfers that were made by Bosnia-Herzegovina to the contractor. The disbursed implementation costs are amounts paid by USAID.

	4% Year Program Budget	Amount Obligated	Amount Disbursed
Infrastructure Projects	\$144,000,000	\$11 0,000,000	\$47,272,550
Implementation Costs:			
Parsons Contract	3 1,000,000	9,400,000	8,816,881
Audit, Program, and Evaluation	1,800,000	896,119 ⁷	582,003 ⁷
USAID Program Management	2,200,000	1,363,232	445,078
Contingencies	<u>3 .000.000</u>	<u>0</u>	<u>0</u>
Totals	<u>\$182.000.000</u>	<u>\$121.659.351</u>	<u>\$57,116,512</u>

⁷ The total amounts obligated (\$1,792,238) and disbursed (\$1,164,005) were equally divided between the MIS and Bosnian Reconstruction Finance Facility programs (see Audit report No. B-168-98-00 1-P).

Background

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Bosnia-Herzegovina declared its independence from the former Socialist Republic of Yugoslavia in March 1992, following the lead of Slovenia and Croatia which declared independence in 1991. The move to independence precipitated a war in Bosnia-Herzegovina that lasted from 1992 to the Dayton Agreement of October 10, 1995.

The war in Bosnia-Herzegovina was fought among three major ethnic/religious groups-Bosniacs (Muslims), Serbs (Eastern Orthodox Christians), and Croats (Roman Catholics). The Dayton Agreement defined Bosnia as a single state consisting of two entities:

- the Federation of Bosnia which joins together the areas controlled by Bosniacs and Bosnian Croats; and
- the Republic of Srpska which consists of the Bosnian Serbs.

Bosnia remains both politically and ethnically divided where freedom of movement across ethnic boundaries is constrained.

The Dayton Agreement viewed economic rehabilitation and reconstruction as an essential element to the peace process. The Agreement negotiators believed that the people must have an economic stake in the process, therefore, economic reconstruction, economic institution building, and promotion of a market economy were deemed major factors to ensuring a lasting peace. In 1996, 59 donor countries and organizations pledged \$1.9 billion to the reconstruction program and by the end of the year there were many signs of economic recovery. For example, road and rail links were being restored, housing repaired, and basic services such as water and heating were reestablished.

After the war, Bosnia-Herzegovina was faced with consolidating the peace and reconstructing its war-torn economy, an enormous task as evidenced by the following problems:

- At least 2.4 million people needed assistance out of the population of three million. There were more than 300,000 pensioners, 120,000 disabled, 140,000 orphans and widows, 800,000 displaced persons, and more than one million returning refugees.

- More than 60 percent of the apartments were destroyed, and in some municipalities, the number was higher.
- More than 50 percent of the health facilities were damaged, and the number of hospital beds dropped by 50 percent during the war from six per 1,000 to three per 1,000.
- Damage of water and sewer networks posed a major public health hazard.

In addition to financing needed repairs to the infrastructure and providing social services, the government faced large private claims and large claims for wages and pensions. The economy was demonetized during the war when doctors, teachers, and other public sector professionals did not receive wages for three years.

House Joint Resolution 170 (Public Law 104-1 22) appropriated \$198 million for Bosnia-Herzegovina on March 29, 1996. These funds are to be used for economic revitalization (\$145 million), police training and monitors (\$45 million), demining (\$5 million), and operating expenses (\$3 million).

<p align="center">Summary of Audit Finding Reported to USAID/Bosnia-Herzegovina</p>
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Finding No. And Date Issued	Summary of Audit Finding	Management Decision/Action
MIS-6 6/05/97	Two of 18 Community Infrastructure Rehabilitation Projects are not being used as planned approximately five months after completion.	USAID/Bosnia-Herzegovina took corrective action. It modified the agreements which municipalities must sign prior to approval of such projects to include specific pledges to use and maintain projects appropriately. In addition, the agreement now provides written notice that failure to abide by the pledge will result in the community becoming low priority for selection for any future projects.